

Kentucky Agricultural Finance Corporation

Minutes of the January Meeting

The meeting of the Kentucky Agricultural Finance Corporation was held on Friday January 6, 2006 at 10:00 AM EDT at the Commissioner of Agriculture offices in Frankfort, Kentucky. Mark Farrow, presiding, called the meeting to order. Mr. Farrow then asked Nicole Ray, Secretary, to call the roll.

Members Present

Commissioner Farmer (Mark Farrow, designee); Wayne Hunt; Larry Jagers; Jane Jones; Doug Lawson; Billy Joe Miles; Frank Penn; James Reams; Annette Crawford Walters

Members Absent

Charles Miller, Bob Proffitt, Secretary Rudolph

Others Present

Staff- Catherine Ball, David Bratcher, Tim Hughes, Bill McCloskey, Nicole Ray, Keith L. Rogers

Guests- Anna Kendrick, KDA

Notification of Press

Keith Rogers stated that the media had been notified.

Introduction of Guests

Mr. Farrow introduced Anna Kendrick, Director of Agriculture Marketing and Agribusiness Recruitment for the Kentucky Department of Agriculture.

Mr. Rogers introduced Bill McCloskey from the Governor's Office of Agricultural Policy

Review and approval of Minutes of November 4, 2005

A motion to approve the September minutes was made by Wayne Hunt, seconded by Annette Walters. The motion passed without dissent.

Executive Director's Report

Mr. Rogers notified the Board of health concerns for Dennis Griffin, a member of the Agriculture Development Board.

Mr. Rogers announced that he has hired a new Executive Assistant, Christi Marksbury.

Mr. Rogers updated the Board that the ADB revised its Guiding Principles, which reduced the number from 21 to 15 during the annual planning meeting held November 17-18, 2005. In December, the ADB completed a review of the 13 county model programs for 2006.

Mr. Rogers invited the Board to the presentation of the vegetable co-op study completed by Ascendant Partners on Friday, January 13th at the Executive Inn in Owensboro at 10am.

Mr. Rogers updated the Board on the final Phase II payment which was mailed on December 31, 2005.

Mr. Rogers announced the new committee assignments for the Board:

AUDIT: Annette Crawford Walters (Chairman)
Doug Lawson
Jane Jones
Larry Jagers
Billy Joe Miles

OPERATIONS: Bob Profitt (Chairman)
Commissioner Richie Farmer
Charles Miller
James T. Reams

MARKETING: Frank Penn (Chairman)
Commissioner Richie Farmer
Doug Lawson
Bob Profitt
Wayne Hunt

LOAN REVIEW COMMITTEE: Charles Miller (Chairman)
Jane Jones
Annette Crawford Walters
Wayne Hunt
Larry Jagers
James T. Reams (Alternate)
Billy Joe Miles (Alternate)
Frank Penn (Alternate)

Mr. Rogers notified the Board of the Agricultural Development Fund Annual Meeting on February 10th at the Marriott East in Louisville and invited them to attend.

Mr. Rogers notified the Board that their next meeting will be February 3rd in Frankfort.

Old Business

Mr. Hughes called the attention of the Board to the memo on loan #AF05-0006. The lender has requested approval to restructure the loans, which would make the position of KAFC stronger. Staff recommends approval. **A motion to approve the request was made by Mr. Reams, seconded by Mr. Hunt. The motion passed without dissent.**

Mr. Hughes called the attention of the Board to the memo on loan #AF05-0009. The borrowers are running over budget and the loan officer has requested approval to increase the bank's loan amount. Staff recommends approval. **A motion to approve the request was made by Mr. Lawson, seconded by Ms. Walters. The motion passed without dissent.**

Mr. Hughes called the attention of the Board to the memo on loan #AF05-0021. The borrowers are running over budget and the lender has requested approval to increase the bank's loan amount. Staff recommends approval. **A motion to approve the request was made by Mr. Penn, seconded by Mr. Hunt. The motion passed without dissent.**

New Business

Mr. Farrow welcomed the Board to the Commissioner's new offices and then yielded the floor to Tim Hughes to discuss new business.

Mr. Hughes updated the Board that the outstanding balance of the Linked Deposit program is \$7,643,861.18 and that Kentucky Bank has joined the program. He called the Board's attention to the loan activity on the activity sheet. About \$1 million has been disbursed and there are commitments of \$5,684,556.00. Over \$130,000 interest has accrued.

Mr. Rogers updated the Board that the \$17 million bond was not sold by the Finance Cabinet in November. Interim financing was sold instead, so that money is available for KAFC to draw on but KAFC is not earning interest on these funds..

Mr. Hughes notified the Board of some news stories that are being printed about KAFC in Farm World magazine and the Burley Tobacco Cooperative newsletter. The Kentucky Thoroughbred Association requested brochures for its members and for members of the Thoroughbred Owners and Breeders Association. He is receiving daily calls from individuals inquiring about loan programs.

Policy Review for 2006

Mr. Hughes called the attention of the Board to the memo "Board Policy Considerations". The memo outlines policy guideline recommendations for KAFC loan programs in 2006.

All documents are on file with the Board Secretary.

Mr. Rogers reminded the Board that on December 17, 2004 the KAFC-ADB agreement was modified to create the Agricultural Processing Investment Fund and the Tobacco Grower Investment Fund.

Agricultural Processing Investment Fund-

Governor Fletcher is recommending that the \$5,000,000 cap remain in effect through June 30, 2008 as a part of his proposed budget. A permanent change would require legislation.

The Kentucky constitution prohibits the state from owning stock. KAFC can not participate in an equity position within a company. KAFC staff has deleted the "equity" language from its promotional material and recommends that the language be deleted from the KAFC-ADB agreement.

Mr. Hughes explained to the Board that there is interest in companies wanting to finance operating capital and refinance existing loans. Staff recommendation is to not change the operating agreement to allow those loans.

Tobacco Grower Investment Fund-

Mr. Rogers distributed a document on tobacco dependency. The ADB encourages but does not require that tobacco dependency be included in scoring of applications on model programs. The motion adopted by the ADB is included in the document which is on file with the Board Secretary.

KAFC staff recommends that the Tobacco Grower Investment Fund be renamed and read as follows:

Agricultural Producer Investment Fund:

KAFC shall provide and/or participate in loans assisting tobacco farmers making operational transitions. These loans shall be limited to capital expenditures involving real estate and/or improvements that improve the financial viability of individual farming operations. These loans can not be used for operating expenses or to refinance existing debt. KAFC may work in harmony with financial institutions with offices in Kentucky, the Farm Service Agency, and with other agencies to leverage available funds to secure attractive financing opportunities for producers. Special consideration shall be given to limited resource farmers and to producers who have received or who are receiving income from tobacco. located in counties heavily impacted by the loss of tobacco income.

A motion to accept the recommendation was made by Mr. Lawson, seconded by Mr. Miles. The motion passed without dissent.

A motion to ask the ADB to make the necessary changes in the KAFC-ADB agreement was made by Mr. Miles, seconded by Mr. Reams. The motion passed without dissent.

Agricultural Infrastructure Loan Program-

KAFC staff recommends eliminating the option for AILP applicants to apply for a loan without bank participation. All AILP loans will be originated and serviced through a participating lender. **A motion to accept the recommendation was made by Mr. Penn, seconded by Mr. Jaggars. The motion passed without dissent.**

KAFC staff recommends that non-tobacco dependent applicants who meet the other AILP requirements be eligible for loans at a new 4% rate and that KAFC continue to offer the existing 2% tobacco dependent rate and the new 4% rate as long as the federal discount rate does not exceed 5%. **A motion to accept the recommendation was made by Ms. Walters, seconded by Mr. Hunt. The motion passed without dissent.**

KAFC staff recommends if an applicant resides in another state, that for the past two years at least 20% of his or her gross income must have come from farming operations located in Kentucky to be eligible for AILP financing. **A motion to accept the recommendation was made by Mr. Miles, seconded by Mr. Jagers. The motion passed without dissent.**

KAFC staff recommends that the costs of grape vines and trees for the establishment of vineyards and orchards be eligible projects for financing under the AILP. **A motion to deny the recommendation was made by Ms. Walters, seconded by Mr. Reams. The motion passed without dissent.**

KAFC staff recommends that an application to construct facilities on rented property be eligible if the tenant has a rental contract that meets or exceeds the amortization period of the loan, and that the security be limited to other real estate or an assignment on the applicant's TTPP payments. Any other arrangement will be discouraged, but will be reviewed by the KAFC board with participating bank recommendations. **A motion to accept the recommendation was made by Mr. Lawson, seconded by Ms. Walters. The motion passed without dissent.**

KAFC staff recommends that the purchase of real estate that has facilities and improvements already constructed be eligible for AILP financing at the appraised value of the facilities, but the land would not be eligible. **A motion to accept the recommendation was made by Mr. Miles, seconded by Mr. Lawson. The motion passed without dissent.**

KAFC policy states that a borrower can not have an outstanding balance greater than \$100,000 in KAFC AILP loans. KAFC staff recommends that if a current borrower has reached his or her AILP limit and is a partner in an LLC or other type of farming operation, participation by that entity will be limited to the qualifications of the other borrowers based up on their percent of ownership in that entity. **A motion to accept the recommendation was made by Mr. Hunt, seconded by Mr. Miles. The motion passed without dissent.**

KAFC staff recommends that KAFC continue to accept applications for projects under construction through June 30, 2006. **A motion to accept the recommendation was made by Mr. Miles, seconded by Mr. Penn. The motion passed without dissent.**

KAFC staff recommends that the AILP individual borrower cap remain at \$100,000. **A motion to accept the recommendation was made by Mr. Lawson, seconded by Mr. Jagers. The motion passed without dissent.**

Down Payment Guarantee Program-

KAFC staff recommends that the Down Payment Guarantee Program be terminated. **A motion to terminate this program was made by Mr. Lawson, seconded by Mr. Hunt. The motion passed without dissent.**

Young Farmer Loan Program-

Mr. Hughes introduced a draft for a Beginning Farmer/Tenant Farmer Loan Program. KAFC staff recommends that an application be developed and submitted to the ADB requesting a \$5,000,000 grant to implement a Young Farmer Loan Program.

A motion to accept the recommendation was made by Mr. Penn, seconded by Mr. Miles. The motion passed without dissent.

Mr. Hughes introduced a concept to create an Aggie Bond program. KAFC staff recommends that KAFC explore the creation of an Aggie Bond program. This program provides the borrower with below market financing by enabling an originating lender the opportunity to issue and repurchase the loan through a bond issue. The bank's interest income is tax free, resulting in a savings to the borrower. Staff will secure a knowledgeable proponent of this program for a future KAFC board presentation.

A motion to accept the recommendation was made by Mr. Miles, seconded by Mr. Hunt. The motion passed without dissent.

Breeding Livestock Loan Program-

Mr. Hughes introduced a concept to create a program for loans to purchase breeding stock. KAFC staff recommends the creation of a working group that includes three KAFC board members. This group will research and develop recommendations for a KAFC program and report to the KAFC board at the April meeting. **A motion to accept the recommendation was made by Mr. Jagers, seconded by Mr. Miles. The motion passed without dissent.**

Value-Added Production Assistance Program-

Mr. Hughes introduced a concept to create a program for Value-Added Production Assistance. KAFC staff recommends that an application be developed and submitted to the ADB requesting a \$3,000,000 grant to implement a Value-added Production Assistance program. KAFC staff will continue soliciting input from lenders, board members and other agricultural leaders. An application will be presented for KAFC board review by the next board meeting. **A motion to accept the recommendation was made by Mr. Miles, seconded by Mr. Lawson. The motion passed without dissent.**

Loan applications

Agricultural Infrastructure Loan Program – Discussion and Action

Mr. Hughes presented the following loan applications

AF05-0035. Applicants are requesting \$80,000 over 7 years for the purchase of a 19.8 acre farm with two poultry barns. KAFC has not received documentation of tobacco dependency and has identified other financial concerns. Staff recommends not approving this loan. **A motion to deny was made by Ms. Walters, seconded by Mr. Reams. The motion passed without dissent.**

AF05-0036. The loan will be in conjunction with Farm Credit Services. Applicants are requesting \$27,500 over 10 years for a farrowing barn, hoop structure and waste lagoon. **The application has met the requirements and was approved by staff.**

AF05-0037. Applicants are requesting \$75,125 over 10 years for construction on a free-stall dairy barn. Staff recommends approval. **A motion to approve was made by Mr. Jagers, seconded by Mr. Reams. The motion passed without dissent.**

AF05-0038. Applicants are requesting \$18,750 over 10 years for construction of a dual purpose cattle and tobacco barn. **The application has met the requirements and was approved by staff.**

AF05-0039. Applicants are requesting \$36,003 over 10 years for construction of a tobacco barn and irrigation well. Heritage Bank is the leading lender on this application. **The application has met the requirements and was approved by staff.**

Agricultural Processing Investment Fund – Discussion and Action

AF05-0034. Applicant is requesting \$5 million over 10 years to develop ethanol operation in Fulton, KY. In addition to the KAFC request, the applicant is requesting \$1 million from the ADB. **A motion to deny was made by Mr. Hunt, seconded by Mr. Reams. The motion passed without dissent.**

Other Business

No other business.

Closing Remarks

The motion to adjourn was made by Mr. Hunt, seconded by Mr. Lawson. The motion passed without dissent.

The meeting adjourned at 1:58pm EDT.